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TAGS: ECON ETRD VM
SUBJECT: MOF OFFICIAL DISCUSSES STATISTICS ON SUBSIDIES

SENSITIVE - DO NOT POST ON INTERNET

¶1. (SBU) Econoff met on May 4 with Ministry of Finance (MOF) Deputy Director General for International Cooperation Ha Huy Tuan to discuss subsidies in general and to clarify certain points in the subsidy statistics recently sent to USTR. Mr. Tuan explained that the three tables in Annex I cover export-related tax incentives. (The table in Annex II covers subsidized loans from the Development Assistance Fund, which MOF does not control and on which it does not have independent information.) The tax incentives fall into three categories: corporate income or profit taxes, fees/taxes related to land rental or use and import taxes/tariffs. Both domestic and foreign firms may get tariff rebates for imported materials used to manufacture exports, but foreign invested firms are also entitled to receive tariff rebates for imported machinery and equipment in an amount up to the amount of permitted by their investment license.

¶2. (SBU) Unlike previous data supplied to the U.S. side, the data in this latest submission is based on figures from actual tax audits. Previous estimates of investment incentives were based on the amounts permitted in companies' investment licenses, which tended to overestimate the incentives since many companies never used their tax incentives, either because they never did business, never made a profit, or for some other reason. MOF is fairly confident of the accuracy of the overall figures for tax incentives because these are based on tax audits. In the future, this source of data may not be available because the MOF is shifting towards a system of more selective audits, but for the present almost 100 percent of companies are audited. However, the breakdown of the total incentive figures into textiles and garment industry and other industries is only MOF's best estimate.

¶3. (SBU) Tuan confirmed that the new Common Investment Law no longer contains incentives. Incentive provisions for existing investment have been transferred to the tax code and will be amended depending on the outcome of WTO accession negotiations. However, although provisions for export-related subsidies still exist, no new export related subsidies are being given to companies.

¶4. (SBU) Tuan emphasized that almost half of investment incentives by value go to foreign invested companies, although they account for less than a quarter of companies receiving incentives. Tuan said that Vietnam is requesting a transition period primarily to benefit foreign companies. SOEs receive only about 10 percent by value of incentives and SOEs in the textile sector receive less than 1 percent.

MARINE